September 16, 2026

Ujjivan Small Finance Bank Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial Sector Regulator#
Certificates of deposit	1,500.00	2,500.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount	RBI
Total	**1,500.00**	**2,500.00**		

**Instrument details are provided in Annexure I*

 # The Securities and Exchange Board of India's (SEBI's) grievance redressal/dispute resolution and SEBI's investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments that fall under the regulatory purview of financial sector regulators (FSRs) other than SEBI.

Rationale

The rating factors in the established track record of Ujjivan Small Finance Bank Limited (Ujjivan) in the lending business, with a steady expansion in the share of secured asset segments, and its comfortable capital profile. Ujjivan has a diversified presence across 26 states and union territories (UTs), 814 branches, and assets under management (AUM) of Rs. 42,903 crore as of June 2026 (Rs. 40,655 crore as of March 2026). Ujjivan retains a strong presence in the micro-banking segment (49.8% of the AUM as of June 2026), with the diversification into secured segments gaining pace; the share of secured asset segments crossed the 50% mark as of June 2026. The bank's year-on-year (YoY) AUM growth recovered to 27% in FY2026, following the moderation to 8% in FY2025 on account of the stress in the microfinance industry. Going forward, the bank is expected to grow at a CAGR of 25% over the medium term, with the share of secured asset segments increasing to 70% by March 2030. Ujjivan's Tier I and overall capital adequacy ratio remain comfortable at 19.2% and 20.4%, respectively, as of June 2026, which would support its medium-term growth plans.

Ujjivan's asset quality performance, which had moderated through the microfinance stress cycle, has shown an improvement in recent quarters. The bank's overall gross non-performing assets (NPA) and net NPA eased to 2.2% and 0.3%, respectively, as of June 2026 (2.3% and 0.4% as of March 2026), following write-offs, with the provision coverage ratio improving to almost 85% and annualised slippages moderating to 1.6% of the average gross loan book (4.3% in Q1 FY2026). While the near-term trajectory has improved, its ability to protect the asset quality performance across business cycles and macro disruptions, especially given that a sizable share of its borrowers has a moderate credit risk profile, remains critical. The bank's net profitability (PAT/ATA)[1] recovered to about 2.1% in Q1 FY2027 and Q4 FY2026, after moderating to 1.4% in FY2026 on the back of elevated credit and provision costs and lower interest margins. The improvement was aided by lower slippages and credit costs (0.9% of average total assets in Q1 FY2027); sustaining profitability at these levels amid margin compression from the rising secured mix and continued elevated operating expenses on branch expansion and franchise-building activities will remain a key monitorable.

ICRA notes the healthy traction in deposit mobilisation by the bank, with deposits growing 25% YoY to Rs. 48,129 crore as of June 2026. Nevertheless, the share of current account/savings account (CASA) remained relatively moderate at 26.9% as of June 2026 (28.6% as of March 2026). Further, bulk deposits also form a sizable share of Ujjivan's overall deposit profile. Going forward, Ujjivan's ability to sustainably improve the share of CASA and retail deposits in its liability mix while scaling up its operations will be important from a credit perspective.

[1] *Profit after tax / average total assets; average total assets = (opening total assets + closing total assets) / 2.*

Key rating drivers and their description

Credit strengths

Established track record and expected increase in share of secured segments – Ujjivan is the third largest small finance bank in India with a track record of more than two decades in the micro-banking sector. It has a diversified geographical presence across 26 states and UTs, with 814 branches and 605 ATMs, and an AUM of Rs. 42,903 crore as of June 2026. Top states include Karnataka, which accounted for 12.6% of AUM as of June 2026, Tamil Nadu (12.6%), followed by West Bengal (11.3%), Maharashtra (9.8%) and Gujarat (8.5%).

Ujjivan predominantly operates in the retail financing segments, with the share of the secured and unsecured segments at 50% and 50%, respectively, as of June 2026. In the unsecured segment, micro-banking – consisting of group loans under the Joint Liability Group (JLG) model and individual loans to microfinance borrowers – was the main contributor to the AUM at almost 50% as of June 2026. Affordable housing (26% of AUM, including micro mortgages at 4%), financial institution group (FIG; 8%), micro, small and medium enterprises (MSMEs; 8%) and others (about 8%; including vehicle loans, gold loans, agriculture loans and staff loans) constituted the balance. During FY2026, growth in the micro-banking segment moderated to 13%, on the back of stress in the segment; however, secured segments continued to see a healthy growth of 44% (affordable housing at 35% and MSME at 58%), which supported the growth in overall AUM by 27% during the year. Going forward, Ujjivan is expected to increase its advances steadily at a CAGR of about 25% while raising the share of exposures to the secured asset segments to about 70% over the medium term.

Ujjivan had applied for a universal banking license in February 2025; however, the Reserve Bank of India (RBI) returned the application in April 2026, citing the need for further diversification of its loan portfolio. The bank intends to reapply after demonstrating further progress on loan-mix diversification.

Comfortable capital buffers for medium-term growth plans – Ujjivan's capital-to-risk weighted assets ratio (CRAR) stood at 20.4% (Tier I: 19.2%) as of June 2026, well above the regulatory requirement of 15.0% (Tier I: 7.5%). Its net worth stood at Rs. 7,144 crore as of June 2026; the bank last raised Rs. 475 crore of equity capital in FY2023 and has a Board and shareholders approved plan to raise up to Rs. 2,000 crore of equity capital, expected in H2 FY2027. In ICRA's opinion, while Ujjivan's internal capital generation would have to be further strengthened, currently it is comfortably capitalised to sustain the healthy growth rate envisaged over the near-to-medium term.

Credit challenges

Earnings and asset quality performance moderated over last two fiscal years – Ujjivan's asset quality performance had moderated through FY2025-FY2026, predominantly on account of the stress in the micro-banking segment. The microfinance industry was impacted over the preceding two fiscal years by multiple factors, including over-indebtedness of borrowers, sociopolitical disruptions, high staff attrition, etc. This resulted in increased slippages and write-offs in the micro-banking book during the past two fiscal years. Segmental gross NPAs increased to 2.4% as of March 2025 and peaked at 3.3% as of June 2025 from 1.9% as of March 2024. It has since then stabilised, with gross NPAs improving to around 3.0% as of June 2026; bucket-X collection efficiency has also improved to healthy levels of nearly 99.7% during Q1 FY2027. The bank recognised technical write-offs of Rs. 776 crore in the micro-banking segment (92% of the total technical write-offs) during FY2025-FY2026 and Rs. 64 crore in Q1 FY2027, as it cleaned up the stressed book. ICRA anticipates a healthy improvement in near term asset quality performance of the micro-banking segment as the company has largely absorbed the stress in this segment and the performance of the incremental book is expected to be healthy. ICRA notes that Ujjivan had a relatively low share of its micro-banking portfolio where borrowers had three or more overlapping lenders (down to about 1.6% as of June 2026) vis-à-vis the industry, which has been one of the factors supporting its better asset quality performance than its peers.

The bank's overall gross and net NPAs improved to 2.2% and 0.3%, respectively, as of June 2026 (2.3% and 0.4%, respectively, as of March 2026), vis-à-vis 2.5% and 0.7%, respectively, as of June 2025. Given the strong growth in the secured segment in

recent years, the performance of this book as it seasons remains to be seen. Ujjivan increased its provision coverage ratio (PCR) to 85% as of June 2026, including a floating provision of Rs. 130 crore (81% as of March 2026; 78% as of March 2025).

With the microfinance stress easing, the bank's credit and provision costs moderated to 1.5% of ATA in FY2026 (0.9% in Q1 FY2027), and the slippages declined sharply to an annualised 1.6% of average AUM in Q1 FY2027. The net interest margin was at 7.4% of ATA in FY2026 (8.0% in Q1 FY2027) from 8.3% in FY2025, as the yields moderated with the rising share of lower-yielding secured assets, despite some improvement in the cost of funds. Ujjivan's operating expenses remained elevated at 6.2% in FY2026 (6.1% in Q1 FY2027) due to continued investments information technology, product suite and other franchise-building activities. Consequently, the net profitability (PAT/ATA) was at 1.3% in FY2026 over 1.6% in FY2025. However, the same improved in Q4 FY2026 and Q1 FY2027 as the bank reported a PAT/ATA of 2.1% during these quarters, mainly supported by easing credit costs. Over the medium term, continued tightening of margins and elevated operating costs, as Ujjivan plans sizeable branch additions, would be the key challenges, necessitating adequate control on credit costs to sustain profitability at adequate levels.

Moderate CASA and retail deposits – Ujjivan's share of CASA remained moderate at 28.6% as of March 2026 (26.9% as of June 2026), though it has been steadily improving over the years. The share of retail deposits (CASA + retail term deposits) has also remained moderate 70% as of March 2026 (68% as of June 2026), though improving from 48% as of March 2021. Correspondingly, the share of bulk deposits[2] stood at 32% as of June 2026 (30% as of March 2026).

Ujjivan has steadily enhanced its deposit franchise over the years, with deposits constituting almost 93% of the funding base as of June 2026. Deposits grew by 21% YoY in FY2026 and 25% YoY in Q1 FY2027 to Rs. 48,129 crore as of June 2026. A sizeable portion of the deposits (about 91% as of June 2026) were raised in the one- to three-year bucket, to manage the asset-liability management mismatch in the less than one-year bucket better. Going forward, the bank is expected to remain focussed on enhancing its CASA and retail deposits, which would provide a stable depositor base and reduce the cost of funding in the medium term.

Environmental and social risks

Environmental considerations: Given the service-oriented business of Ujjivan, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While the bank does not face material physical climate risks, it is indirectly exposed to environmental risks through its portfolio of assets. However, this is minimised to a certain extent, given its large customer base.

Social considerations: Ujjivan contributes towards enhancing financial inclusion by providing several products and services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such underserved segments could create growth opportunities. However, such growth opportunities must be seen in conjuncture with the asset quality risks that could impact the bank’s credit quality. Data security and customer privacy are among the key factors under social considerations. Customer preference is increasingly shifting towards digital banking. While this provides an opportunity to reduce operating costs, it requires regular investment and augmentation.

Liquidity position: Strong

The liquidity coverage ratio (LCR) stood at 132% as on June 30, 2026, and the net stable funding ratio (NSFR) was at 123% as on June 30, 2026, both remaining above the regulatory level of 100%. The bank's structural liquidity statement, as on June 30, 2026, did not show any negative cumulative mismatches for a period of up to one year. Ujjivan's liquidity profile is further supported by its inherent borrowing ability on account of its 'scheduled' status, healthy deposit renewal rates and the availability of funding lines from financial institutions.

[2] *Including certificate of deposits*

Rating sensitivities

Positive factors – Not applicable

Negative factors – Deterioration in the asset quality or profitability (return on assets (RoA) below 1.0%) on a sustained basis could negatively impact the rating. A decline in the capital cushion to less than 3%, in relation to the Tier I regulatory level, on a sustained basis could also negatively impact the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Banks and Financial Institutions
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of Ujjivan.

About the company

Ujjivan Small Finance Bank Limited is the third largest small finance bank in India spanning operations across 26 states and UTs, with 814 branches and 605 ATMs as of June 2026. It received the RBI's license to set up a small finance bank in November 2016 and commenced banking operations from February 2017 by transferring the assets and liabilities of Ujjivan Financial Services Limited (UFSL). UFSL, set up in 2005, operated as a Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI), focusing on group loans under the JLG model, especially in metros, urban and semi-urban locations. It was the largest NBFC-MFI in India at the time of its conversion into a small finance bank. Ujjivan completed its reverse merger with UFSL in May 2024 by allotting Ujjivan's equity shares to the equity shareholders of UFSL (exchange ratio of 116 equity shares of Ujjivan for every 10 equity shares of UFSL).

The bank offers deposits, micro-banking loans, affordable housing, micro, small and medium enterprise (MSME) loans, micro-mortgage loans, agricultural loans, vehicle loans and gold loans among others. It had an AUM of Rs. 42,903 crore and deposit base of Rs. 48,129 crore as of June 2026.

The bank has reported a profit after tax (PAT) of Rs. 693 crore on a total asset base of Rs. 57,541 crore in FY2026, over a PAT of Rs. 726 crore on a total asset base of Rs. 47,689 crore in FY2025. It reported a PAT of Rs. 317 crore on a total asset base of Rs. 60,658 crore in Q1 FY2027.

Key financial indicators (audited)

Ujjivan Small Finance Bank	FY2025	FY2026	Q1 FY2027
Total income	7,201	8,039	2,282
Profit after tax	726	693	317
Total assets	47,689	57,541	60,658
CET I	21.4%	19.7%	19.2%
CRAR	23.1%	21.1%	20.4%
PAT/ATA	1.6%	1.3%	2.1%
Gross NPAs	2.2%	2.3%	2.2%
Net NPAs	0.5%	0.4%	0.3%

Source: Bank, ICRA Research; Amount in Rs. crore; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2027)				Chronology of rating history for the past 3 years					
				FY2026		FY2025		FY2024	
Instrument	Type	Amount rated (Rs. crore)	Sep-16-2026	Date	Rating	Date	Rating	Date	Rating
Certificate of deposit	Short term	2,500.00	[ICRA]A1+	Sep-30-2025	[ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Certificates of deposit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook	Financial sector regulator#
INE551W16CH7	Certificate of deposit	Jul-13-2026	6.95%	Sep-28-2026	125.00	[ICRA]A1+	RBI
INE551W16CO3	Certificate of deposit	Jun-30-2026	7.70%	Jan-04-2027	30.00	[ICRA]A1+	RBI
INE551W16CI5	Certificate of deposit	Jun-25-2026	7.85%	Dec-15-2026	75.00	[ICRA]A1+	RBI
INE551W16CM7	Certificate of deposit	Jun-16-2026	7.50%	Sep-15-2026	150.00	[ICRA]A1+	RBI
INE551W16CL9	Certificate of deposit	Apr-30-2026	7.40%	Oct-27-2026	50.00	[ICRA]A1+	RBI
INE551W16CK1	Certificate of deposit	Mar-18-2026	8.25%	Mar-18-2027	225.00	[ICRA]A1+	RBI
INE551W16CJ3	Certificate of deposit	Feb-27-2026	7.94%	Feb-25-2027	100.00	[ICRA]A1+	RBI
INE551W16CN5	Certificate of deposit	Feb-26-2026	7.94%	Feb-26-2027	100.00	[ICRA]A1+	RBI
INE551W16CI5	Certificate of deposit	Feb-26-2026	7.94%	Feb-26-2027	25.00	[ICRA]A1+	RBI
INE551W16CH7	Certificate of deposit	Dec-31-2025	7.10%	Sep-28-2026	30.00	[ICRA]A1+	RBI
INE551W16CC8	Certificate of deposit	Nov-21-2025	7.25%	Nov-19-2026	25.00	[ICRA]A1+	RBI
INE551W16CC8	Certificate of deposit	Nov-20-2025	7.25%	Nov-19-2026	50.00	[ICRA]A1+	RBI
INE551W16CC8	Certificate of deposit	Nov-20-2025	7.25%	Nov-19-2026	50.00	[ICRA]A1+	RBI
Yet to be placed	Certificate of deposit	NA	NA	-	1,465.00	[ICRA]A1+	RBI

Source: Company

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Annexure II: List of entities considered for consolidated analysis – Not applicable

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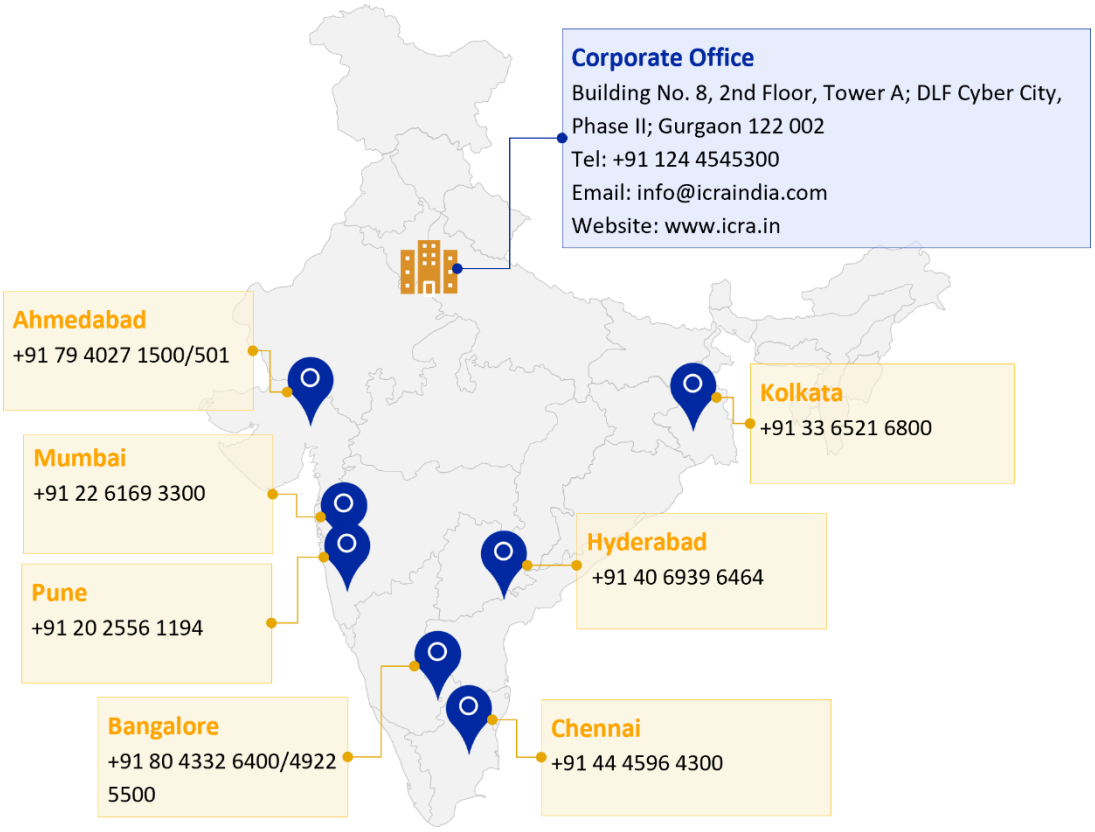
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